

THE WISCONSIN TAXPAYER

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Issues for Voters, Questions for Candidates A Wisconsin Election Resource

The November general election is fast approaching. Wisconsin voters will select a new legislature and there's also a race for governor. When these elected officials take office in January, they will have to tackle some pressing issues, including transportation finance, a slow-growing economy, and rising fiscal pressure on schools and local governments.

In a state where government spends almost \$35 billion per year, whom we elect as governor and to the legislature matters. A big decision point is fast approaching, with the November general election slated for the 4th. Needless to say, it is time for voters to do some homework.

While partisan exchanges remain emotional and superficial, informed voting requires a more thorough look at the key issues facing Wisconsin.

Some of these issues are all too familiar: state funding of K-12 schools, sluggish job growth, and transportation funding. Others, like population trends and state debt, are rarely discussed in the mainstream media. Here, important topic areas are explored and possible questions

voters might ask candidates are included.

TRANSPORTATION

Wisconsin, like many states and the nation, faces a transportation funding problem. Financing highways and other modes of transportation relies heavily on gas taxes and vehicle registration fees, two revenue sources with little growth potential. Funding transportation here has been further hampered by past use of supposedly segregated transportation revenues to fill general fund budget gaps.

Funding Transportation

State transportation programs are financed largely by transportation user charges, mostly gas taxes

(52%) and vehicle registration fees (32%), two sources that have lagged in recent years.

Gas Taxes. Gas tax collections fell an average of 0.5% per year during 2006-13, with declines in both 2012 (-0.4%) and 2013 (-0.5%). By contrast, gas tax revenues rose an average of 3.2% per year during 2000-06.

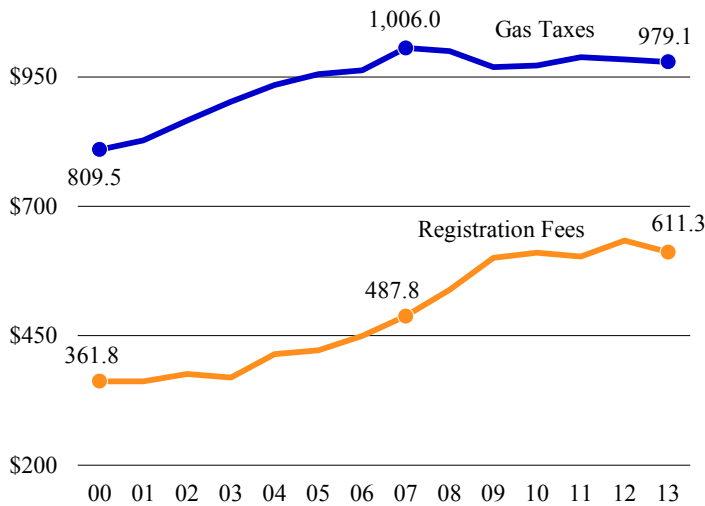
Three factors help explain recent declines. First, the state no longer adjusts the gas tax for inflation ("indexing"). Between 1985 and 2006,

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Figure 1: Gas Taxes Decline, Registration Fees Plateau
\$ Millions, 2000-2013



the tax was adjusted annually to reflect increasing consumer prices. During those years, the tax rose from 16¢ to 30.9¢ per gallon. It has not changed since.

Second, federal mandates require vehicles to become more fuel efficient. The average car was 9% more efficient in 2010 than in 1998. And third, vehicle miles traveled have leveled off. During 1998-2003, vehicle miles traveled rose about 6%. They declined during the ensuing five years, before rising a total of 4% during 2008-13.

With increasing fuel efficiency, miles traveled will have to rise significantly in the years ahead for tax revenues to grow.

Vehicle Registrations. Vehicle registration fees rose an average of 8.4% per year during 2003-09 due largely to fee increases in 2003 and 2008. Since then, they have averaged growth of just 0.5% per year (see Figure 1). Combined, gas taxes and vehicle registration fees rose 0.3% per year during 2009-13.

Borrowing. During 2003-11, state leaders shifted money from the Transportation Fund to the general fund to address budget shortfalls. To minimize the impact on transportation, they allowed additional borrowing.

The borrowing helped keep the transportation budget funded. However, it had long-term implications for dollars available to pay for transportation in future years: Debt service costs have grown rapidly.

During 1998-2002, debt service remained constant at about 7% of transportation revenues. With

new borrowing in subsequent years, that percentage rose to 10.2% in 2007. In 2013, debt service claimed nearly 16% of transportation revenues, leaving fewer dollars for state highways and bridges, and local transportation aids.

Spending

Compared to other states, Wisconsin's transportation spending is relatively high. Figures from the U.S. Census Bureau put state-local spending here at \$644 per capita in 2011. That was 31.2% more than the U.S. average and 14th highest among the states.

Nearly all of the difference between spending in Wisconsin and elsewhere, however, can be explained by weather and road miles. Among the states spending the most on roads, 13 have significant snowfall; the exception is Louisiana. Wisconsin also has about 42 lane miles of road per 1,000 residents, 19th highest nationally.

Wisconsin's transportation needs in the next decade cannot be fully funded without additional revenues, as a recent government commission study showed. Without changes to the status quo, state

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officials expect to have approximately \$25 billion available for transportation over the next 10 years. Even if spending were to remain at 2013 levels over that period, the state would be short \$2 billion. Were the state to implement the commission's spending recommendations, the gap approaches \$7 billion, or 28% more than currently estimated revenues.

Candidate Questions

1. Wisconsin relies heavily on gas taxes and registration fees to fund transportation. With slow-growing revenue from both, what changes, if any, would you support to enhance transportation revenues? Or, would you reduce spending to meet currently available revenues? How?

2. Increased borrowing for transportation has led to growing debt service payments. Should such borrowing be curtailed? Also, would you support a constitutional amendment to restrict transfers from the Transportation Fund to other funds?

ECONOMY

A thriving economy is essential to future growth in Wisconsin jobs, incomes, and tax revenues. However, economic growth here has lagged the rest of the nation for some time. Recent population projections suggest that an aging Wisconsin will not have the workers necessary to change that appreciably any time soon.

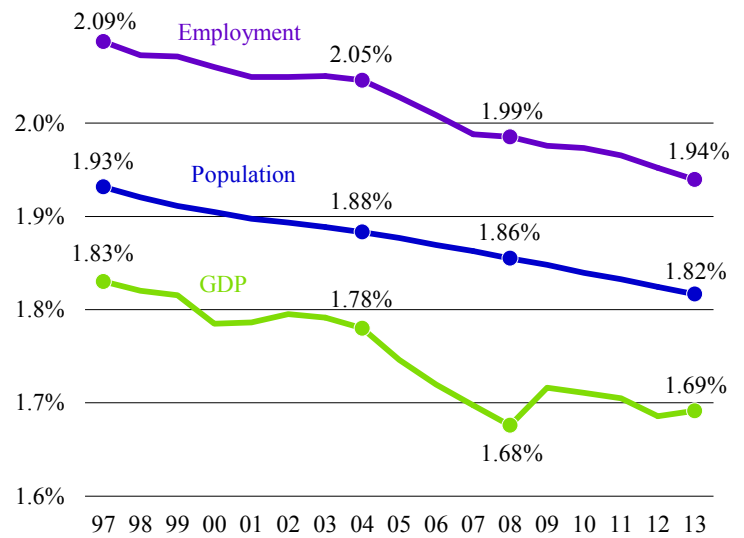
The state's shares of the U.S. population, jobs, and output (GDP) have been declining over the past 15 years (see Figure 2). For example, output here accounted for 1.69% of the U.S. total in 2013, down from 1.83% in 1997.

Income, People, and Jobs

Historically, Wisconsin's per capita personal income has lagged the nation's. In the late 1980s and early 1990s, it trailed the U.S. by as much as 7.0%. The gap has since narrowed. Per capita income growth here averaged 3.0% per year during 2000-13, compared to 2.9% nationally, but our per capita income was still 3.1% below the national average in 2013.

Below average income is largely driven by below average wages. Average wages here have trailed the nation's for years, but the gap has widened in recent years. Average wages in Wisconsin were 14.0% below the U.S. average in 2013, compared to 10.8% below in 2003.

Figure 2: Wisconsin's Share of Jobs, People, Output Shrinks
% of U.S. Total, 1997-2013



As with income and wages, employment growth here has also lagged. During 2000-13, job growth nationwide averaged 0.8% per year, vs. 0.3% here.

Looking Ahead

Past experience suggests that population growth is important for economic growth. Any hope of an expanding economy tomorrow requires sufficient population growth today. Metaphorically, today's babies are tomorrow's students and next week's workers. Yet, according to recent projections, Wisconsin's population is expected to grow slowly over the next few decades. Annual population growth is predicted to average just 0.05% between 2035 and 2040.

Traditionally, employment has tracked the working age population (see Figure 3 on page 3). While the

Figure 3: Job Numbers Track Working-Age Population
Millions, Actual (1980-2010), Projected (2010-40)

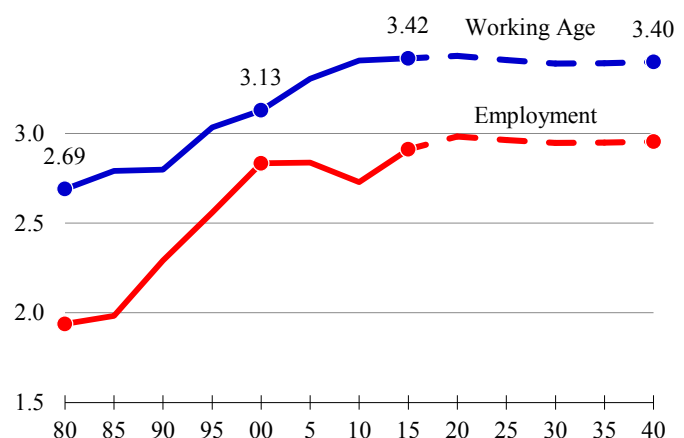
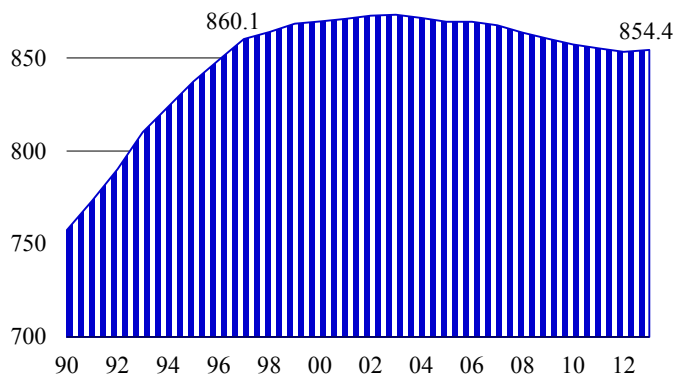


Figure 4: School Enrollment Declines
Thousands, 1990-2013



retirement-age population is expected to nearly double between 2010 and 2040, the working-age population will fall by 0.2%. Without workforce growth, job creation is unlikely, for it requires workers to fill the needed spots.

As baby boomers retire, deaths are expected to rise much faster than births over the next 30 years. As a result, natural population increase (births minus deaths) will slow. Since the only other way for the population to grow is by migration, future increases in Wisconsin's workforce and the economy hinge on attracting skilled workers from elsewhere.

Candidate Questions

1. The size of Wisconsin's working-aged population is expected to stagnate over the next 25 years, rendering job growth difficult. How can Wisconsin make maximum use of the people it already has to satisfy employers' needs for more workers?

2. Job creation will also depend on in-migration. What, if anything, can the state do to attract skilled workers?

K-12 SCHOOL FINANCE

Wisconsin's K-12 schools are primarily financed by a combination of local property taxes and state general aids, which account for roughly 80% of a typical district's revenue. State categorical aids (for specific purposes), student fees, and federal dollars also help fund public schools.

Responding to rapidly rising school property taxes in the late 1980s and early 1990s, the state imposed limits in 1993-94 on the amount of revenue school districts could raise from a combination of property taxes and state general aids. Originally temporary, the law became permanent in 1995.

Revenue limits have been effective in limiting school property tax increases. However, they have also put pressure on school district budgets, particularly in districts with declining student numbers.

Revenue Limit History

State-mandated limits were originally intended to tie revenue growth to a combination of inflation and enrollment. They are calculated on a per student basis and tied to prior year receipts. Each district's revenue limit is adjusted annually based on a legislated allowable increase and enrollment change. Through 2009, the allowable per student revenue increases were adjusted more or less to reflect inflation. The per-pupil adjustments ranged from \$190 (a 3.4% increase for the average district) in 1994 to \$275 (2.9%) in 2009.

After 2009, the revenue limit landscape changed as state budget problems worsened. With the 2007-09 recession taking its toll on state tax collections, Wisconsin cut school aids in 2010 and reduced the annual revenue limit increase from \$275 per student to \$200 in 2010 and 2011. When fiscal problems continued into 2011, state officials again cut school aids. To forestall local property tax increases, revenue limits were cut 5.5% in 2012, though districts were given greater flexibility in funding salaries and benefits through Act 10.

As fiscal prospects began to improve, modest increases in revenue limits returned. In 2013 and 2014, allowable increases in the per-pupil limits were \$50 and \$75, respectively, or less than 1% for the average district.

Budget Concerns

Slow-growing or declining revenue caps can create budget difficulties for school districts since they face fixed or semi-fixed costs (e.g., transportation, utilities, and administration). These costs tend to increase each year, making it difficult to match rising expenditures with slow-growing or stagnant revenues.

Staffing costs can also be an issue in declining enrollment districts—a growing problem in Wisconsin (see Figure 4). If student counts fall a small amount throughout many grade levels, it may not be feasible to cut staff, even though the district may have fewer revenues. These staffing decisions are exacerbated in small districts, where teachers and administrators may already “wear many hats.”

Slow-growing revenue limits have minimized average school property tax increases. Since 2011, total

school levies have grown less than 0.1%. Property tax levies increased 0.8% to \$4.7 billion in 2013-14. Of Wisconsin's 424 school districts, 185 raised or lowered their levies by 2.5% or less. Only 31 districts (7.3%) reported increases of more than 10%. This is good news for taxpayers, but, combined with reduced or slowing state aid, stresses district finances.

Rural Schools

While mandated revenue limits and state school aids are the most-discussed of K-12 issues, the challenges facing Wisconsin's rural schools continue to grow. In 2012-13, 123 (34%), of Wisconsin's K-12 districts had fewer than five students per square mile. One obvious challenge these districts face is transportation. Students can spend hours on buses to and from school, and the costs of transporting these students continue to rise.

Moreover, most of these districts are small in terms of enrollment. Of the 123, nearly half had fewer than 500 students; 90% had fewer than 1,000. Small districts are not able to take advantage of scale economies; thus, per student costs tend to be above average. In 2013, the 123 sparsely populated districts spent about 15% more per student than the state average.

A lack of modern technological infrastructure exacerbates problems in these districts. In many parts of rural Wisconsin, the availability of high-speed internet is lacking. Yet, students often need it for homework. Moreover, use of technology for instruction is one way these districts could educate students in a more cost-effective way.

Candidate Questions

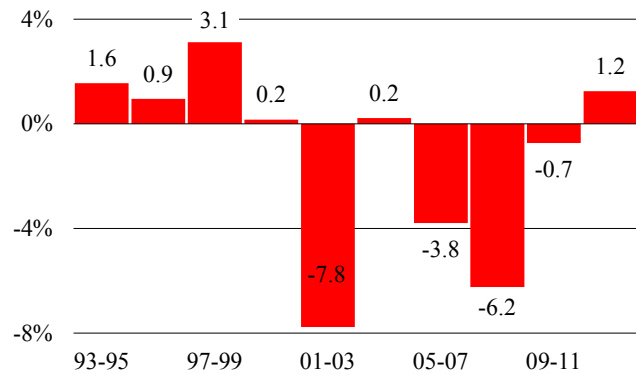
1. Revenue limits have increased slowly in recent years, putting financial stress on school districts. Would you support an increase in the per-pupil revenue limit? If so, how much? If not, why?
2. Rural schools face many challenges unfamiliar to schools in more populous areas. What can the state do to help these districts financially? Would you support eliminating certain school mandates to give these districts more financial and educational flexibility?

STATE FINANCE

State Savings

A surplus is a hedge against future recessions. Many fiscal experts suggest states hold in reserve, at minimum, 5% of expenditures to lessen likelihood of tax hikes and program cuts when the economy sours.

Figure 5: Estimating Revenues is Difficult
Actual Collections as % +/- of Estimates, 1993-2013



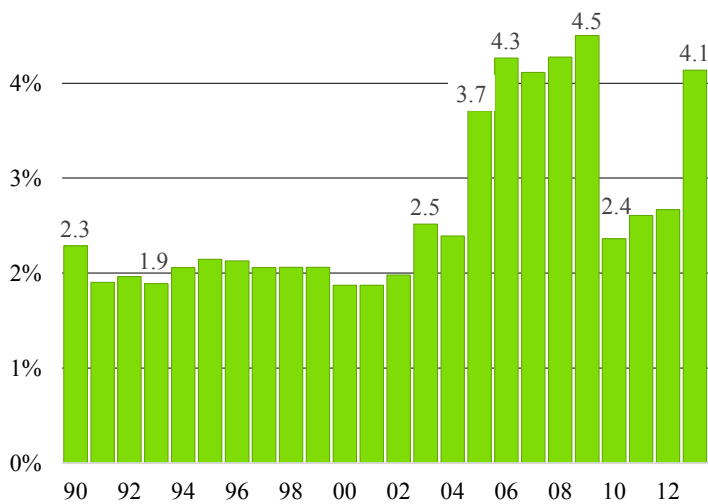
Wisconsin has two surpluses it can tap. First, the state has a "rainy day" fund which has only recently been funded. Its current balance is about \$280 million. Second, each state budget is passed with an ending balance, which is a built-in cushion should tax revenues fail to meet expectations. Although state law requires an ending balance of 2% of expenditures, legislators have postponed implementation of the law for the past decade or more.

Forecasting Taxes. It is never easy to forecast the economy and tax collections. Estimates from the state Legislative Fiscal Bureau (LFB) were within 1% of actual collections in only four of the past 10 biennia (see Figure 5); 2009-11 collections fell only 0.7% short of estimates. Like most recessions, the timing of the past two could not be predicted. As a result, tax collections were underestimated by 7.8% in 2001-03 and by 6.2% in 2007-09.

As is customary in an economic recovery, tax collections in recent years have generally been stronger than expected. In 2011-13, they were 1.2% above projections and continued to exceed expectations during the first half of 2013-14. That said, the current expansion is over five years old, the average length of the past 12 recoveries. How much longer a recovery and growing tax collections can be sustained is unclear.

When the 2013-15 state budget was approved last June, the LFB estimated total tax collections at \$28.5 billion for the biennium and projected a mid-2015 surplus of \$156.3 million. After tax collections increased 6.6% during the first six months of the most recent fiscal year, the LFB raised its estimate by \$856.4 million to \$29.4 billion, and predicted a surplus of more than \$1 billion. The estimated surplus

Figure 6: Debt Service Share of State Spending Rises
 % of General Fund Spending, 1990-2013



was quickly tapped to cut income and property taxes, reducing the expected mid-2015 general fund balance to \$165 million.

If revenues meet the LFB’s January estimates, Wisconsin’s ending balance is dropping from 5.3% of spending in 2013 to 1.0% in 2015. When “rainy day” monies are included, Wisconsin’s 2015 reserves will be at 2.8%.

Time will tell whether these state reserves are sufficient. Some of the anticipated new revenue is already in hand. However, tax collections over the past several months have lagged expectations, suggesting that state revenues might not keep pace with past projections.

Going into the 2007-09 recession, the typical state had savings equal to 8% of spending. Wisconsin (1%) and Arkansas (0%) had the smallest reserves of any state. Major spending cuts under this and the prior governor, and tax increases of more than \$1 billion in the 2009-11 state budget resulted. Protecting state finances from future downturns will be an important issue for future state legislators.

Debt

As many Americans learned in recent years, borrowing is not risk-free. Done to excess, it leads to burdensome debt service payments. Fortunately, as the economy recovered, total debt growth for Wisconsin state-local governments slowed. But large increases in borrowing are a legacy of the prior decade. Consequently, debt service payments consume a growing share of state expenses.

Long-term state government debt totaled \$13.7 billion at the end of fiscal 2013. General obligation debt equaled \$7.5 billion, or 54.7% of the total. Revenue bonds, mostly for transportation, totaled \$3.0 billion (21.6%). Appropriation bonds (\$3.3 billion, 23.8%) accounted for the remainder.

Between 2000 and 2013, total state debt increased 173%, or an average of 8.0% per year. Annual growth averaged 6.4% during the 10 years preceding (1990-2000).

Similarly, general obligation debt more than doubled during 2000-13. Revenue bonds rose 85%, an average of 4.8% per year. The state also issued more than \$3 billion in new appropriation bonds early in the period.

Factors contributing to the relatively rapid growth in total debt during 2000-13 included:

- “securitization” of revenues from court-ordered tobacco industry payments in 2002;
- financing of unfunded retirement liabilities; and
- state budget problems that led to shifting of transportation monies to the general fund, replacing them with bonding.

Debt Slowing. Although state debt has more than doubled since 2000, its growth has slowed recently. It increased at an average annual rate of 3.8% between 2006 and 2013, compared to 13.2% during the previous six years. Total state debt rose just 1.6% in 2012-13, compared to 7.2% in 2009-10. This is good news for Wisconsin: While federal debt continues to rise, Wisconsin government is showing signs of tempering reliance on borrowing.

Debt Service Rising. Past borrowing, however, means debt service payments continue to rise. When the state issues debt, it agrees to pay back the principal, as well as interest. Debt service is the sum of the two, which the state covers in a series of annual payments. The more debt a government has, the more it spends on debt service. When borrowing is excessive, debt service payments become onerous, crowding out other expenditures.

State debt service represents a much larger percentage of total spending today than previously. In 2013, it totaled \$1.1 billion, or 4.1% of expenditures (see Figure 6). By comparison, debt service hovered around 2.0% of spending during the 1990s.

Between 2002 and 2009, debt service's share of expenditures rose steadily, reaching 4.5% in 2009, before dropping to 2.4% in 2010, due mostly to a reduction of nearly \$300 million in principal payments. Much of the short-term decline was likely due to refinancing of old debt.

Of greater concern is debt service paid for with Transportation Fund revenues (e.g., gas taxes and vehicle registration fees). During 1998-2003, debt service averaged about 7.2% of fund revenues, but it accounted for 16% of fund revenues in 2013.

Candidate Questions

1. Wisconsin began 2013-14 with more than \$1 billion in its general and rainy day funds, or nearly 7% of expenditures. Now, the state is predicted to reach mid-2015 with combined reserves equivalent to 2.8% of spending. Given the state's lack of preparedness for past recessions, do you think the state should regularly put aside more money to protect against future economic downturns?
2. Though borrowing has slowed, the debt service share of state spending continues to rise, particularly in the Transportation Fund. How can we prevent debt service payments from adding to state budget problems?

LOCAL FUNDING

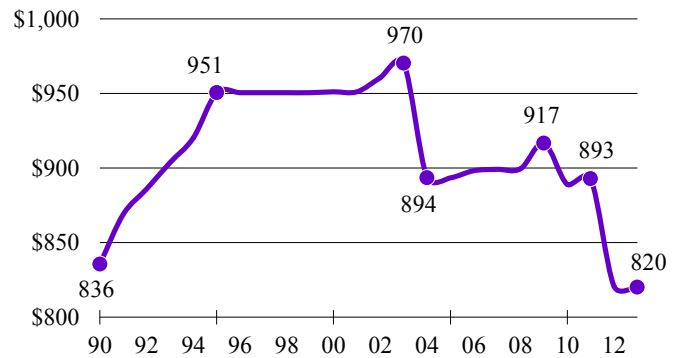
Wisconsin municipalities and counties have also faced increasing financial pressures over the past 15 years. Prolonged state budget difficulties, combined with changing state spending priorities, led to reduced state aid to local governments. Fiscal challenges worsened in 2006 when the state restricted annual increases in municipal and county property taxes. The combination of the two slowed revenue growth for both municipalities and counties.

Local governments responded in at least two ways. First, they slowed overall spending to match available revenues. And second, they reexamined past spending trends and priorities. In general, counties and municipalities continued to fund critical services but scaled back expenditures in less essential areas.

Slowing State Aid

The state provides several kinds of financial help to local governments. Shared revenues (now referred to as county and municipal aids) are unrestricted payments that can be used to fund any local government service. Transportation aids help pay for roads, bike

Figure 7: Shared Revenues Fall, Stall
County & Municipal Shared Revenues, \$ Millions, 1990-2013



paths, public transportation, and related spending. The state also assists counties in paying for human service programs; however, over the past 15 years, state government has scaled back its share of tax dollars going to counties, as well as to municipalities.

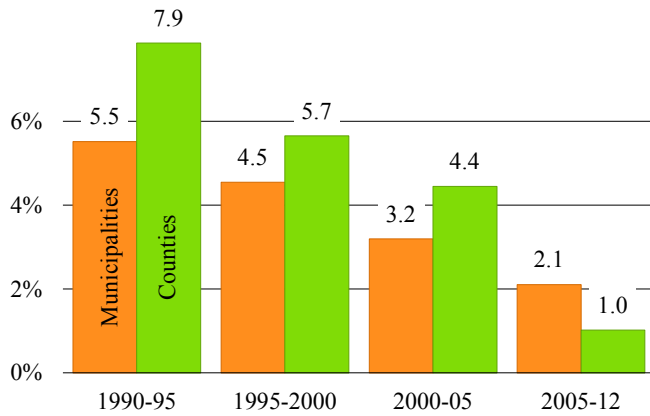
Shifting Priorities. After 1995, state government boosted aid to schools, while reducing it to counties and municipalities. Lawmakers committed to funding “two-thirds” of K-12 school revenues beginning in 1996-97. To reach this two-thirds goal, they increased school aids 12.6% in 1995, 9.9% in 1996, and 31.8% in 1997.

As school costs rose, this two-thirds commitment required additional state taxes be devoted to K-12 schools, even after the state eliminated the two-thirds commitment in 2003. In 1994, school aids were 44.5% of all state assistance to local units; in 2013, they were 56.2% of the total. By contrast, shared revenues for municipalities and counties were 17.0% of all local assistance in 1994 but only 9.7% in 2013.

Decelerating Tax Revenues. A second factor affecting aid to local governments was decelerating state tax revenues after 1999. Tax collections rose rapidly during the 1990s, due primarily to a strong economy and a state income tax that was not indexed (adjusted for inflation). During 1990-99, income tax collections climbed an average of 7.8% per year; general fund tax collections, an average of 6.5% per year.

However, tax collections increased more modestly during 1999-2013, averaging growth of only 2.5% per year. Three factors were responsible. First, lawmakers indexed the state income tax beginning in 1999. With tax brackets and the standard deduction adjusted for inflation each year, collections slowed.

Figure 8: Revenue Growth Slows
Average Annual % Chg. in General Revenues, 1990-2012



Second, beginning in 2000, state income tax rates were lowered, temporarily reducing collections. And finally, recessions in 2001 and especially in 2008-09 reduced state tax collections.

Impact on Local Aid

As state revenues slowed and priorities shifted, the commitment to local assistance, particularly shared revenues, waned (see Figure 7 on page seven). Between 1990 and 1995, shared revenues rose nearly 14% from \$836 million to \$951 million. However, they remained essentially unchanged for the next six years, before increasing slightly in 2002 and 2003.

State budget problems led to a nearly 8% shared revenue cut in 2004. Continued state fiscal challenges meant little change through 2011, followed by another 8% cut in 2012. Multiple aid reductions over the years left shared revenues at \$820.2 million in 2013, down 0.1% from 2012 but below their 1990 levels.

Local Response

As state aid growth diminished and then turned negative, local governments compensated by raising property taxes and fees. During 1995-2005, total state aids to counties grew 34.6%. By contrast, county property taxes rose 77.6%. County fees more than doubled growing 126.2% over the period.

The municipal trend was similar. While total state aids increased just 6.4% between 1995 and 2005, property taxes rose 72.6% and municipal fees grew 81.5%.

In response to these increases, state lawmakers imposed levy limits on municipalities and counties beginning in 2006. Property tax increases were limited, with certain exceptions, to the higher of net new

construction or a set percentage, initially 2% for 2006 and 2007. The percentage has since varied from just under 4% (2008) to 0% (2012 and 2013).

The tax limits slowed property tax increases. From 1995 through 2005, annual property tax growth averaged 5.6% in municipalities and 5.9% in counties. During 2005-2012, they averaged 3.0% and 2.5%, respectively, two or more percentage points below increases of the prior decade.

Slowing Revenues

State aid and property taxes together comprise the majority of local government revenues. When state aid increases little and property taxes are limited, total revenues for municipal and county governments rise slowly, if at all (see Figure 8).

Municipalities. During 1990-95, municipal revenues climbed an average of 5.5% per year. Increases slowed in each of the two subsequent five-year periods, and slowed further during 2005-12, averaging 2.1% annually.

Counties. County revenues followed a similar pattern. After rising nearly 8% per year during the first half of the 1990s, revenue increases slowed during each of the subsequent periods. A relatively large reduction in state aids slowed average annual revenue growth to 1.0% during 2005-12.

Spending Slows

Municipal and county spending adjusted to the revenue slowdown.

For cities, villages, and towns, average annual spending increases generally followed the revenue trend. They dropped from an annual average of 5.5% during 1990-95 to 1.2% during 2005-12.

Counties followed suit. During 1990-95, annual county spending increases averaged 7.3%. Ten years later (2000-05), they averaged only 4.1%. Total county spending was up, on average, only 1.7% annually during 2005-12.

Municipal Spending by Area

In addition to slowing overall expenditure growth, municipalities and counties reexamined priorities, as well.

Public Safety. A significant share of municipal spending is for public safety—police, fire, and ambulance services. Public safety remained a municipal priority during the past 12 years. Total municipal

spending climbed 26.2% during 2000-12, while public safety spending rose 43.2%. Across all municipalities, public safety expenditures averaged 37.9% of spending in 2012, up from 33.4% in 2000 (see Figure 9 on page nine).

Transportation. Historically, more than one of every four municipal dollars was spent on transportation, with nearly all of that for building and maintaining streets. However, that percentage fell over the past 11 years due partly to increased focus on public safety.

During 2005-12, transportation spending increased a total of 3.2%, compared to 8.4% for all municipal expenditures. As a result, it fell from 27.4% of spending in 2000 to 25.3% in 2012.

Sanitation. As revenues became more scarce, one area where municipalities cut spending was sanitation (mostly garbage collection, recycling, and sewers). Comprising 9.9% of municipal spending in 1990, it fell to 7.3% in 2000 and to 6.0% in 2012.

General Government. The cost of operating a municipality, including boards, councils, and administration, is categorized as general government. Over the past decade, these costs increased at about the same rate as total municipal expenditures. However, while general government costs increased 22.9% during 2000-12, they rose only 7.8% during 2005-12. Both increases were less than those for all spending excluding debt (26.2% and 8.4%, respectively).

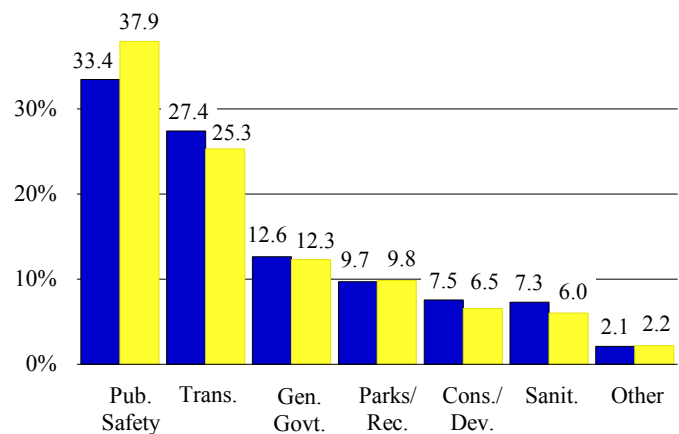
County Spending by Area

Unlike municipalities, counties focus mainly on health and human services, public safety, and transportation. In 2012, these three areas accounted for more than 75% of county expenditures.

Health and Human Services. Of the three, health and human services (HHS) predominates, representing more than 40% of county spending. However, due partly to a change in how long-term care services are provided, county HHS spending fell during 2007-12.

HHS spending increased 51.5% during 2000-07, due largely to expansion of Medicaid, a federal-state program whose services are to a significant degree delivered by counties. However, when long-term care services, and the accompanying state funding, moved from counties to managed care organizations, county HHS spending dropped 14.9% during 2007-12, while total county spending fell only 1.2%. HHS

Figure 9: Public Safety Remains Municipal Priority
% Shares of Municipal Spending, 2000 (blue) and 2012 (yellow)



fell from 44.6% of county expenditures in 2000 to 42.5% in 2012.

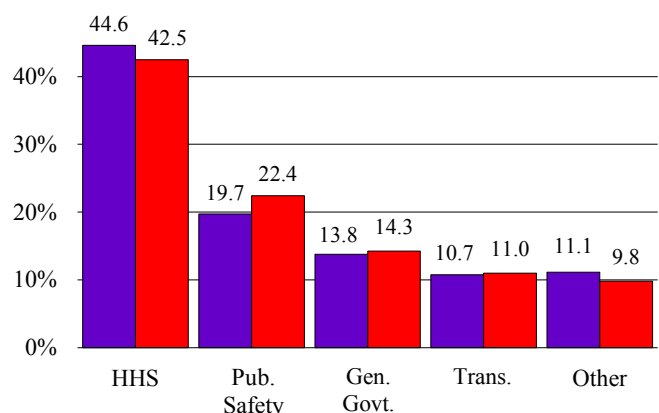
Public Safety. The second largest county outlay is for public safety, mainly sheriffs' departments and jails. Public safety remained a county priority during 2000-12, as expenditures increased faster (54.1%) than those in any other major area. In 2012, public safety accounted for about 22.4% of county spending, compared to 19.7% in 2000.

Transportation. Just over 10% of county general spending goes to transportation, much of it for road maintenance and repair. Transportation spending rose 38.5% during 2000-12, slightly more than overall spending (35.4%).

Debt Service Growing

Local government budget pressures were exacerbated by increased borrowing. Municipal debt

Figure 10: Counties Shift Focus from HHS
% Shares of County Spending, 2000 (purple) and 2012 (red)



service increased 153.0% during 2000-12, compared to 26.2% for other expenditures. Part of the increase could be due to refinancing; however, interest payments alone increased 38.2% over the period. County debt service rose 62.3% during these years, compared to 35.4% for other spending. The increase drops to 44.8% when payments on principal are excluded. With debt service growing faster than other budgeted items, the risk of crowding out other expenditures grows.

Outlook

As with its predecessor, the 2013-15 state budget leaves both revenues shared with local governments and strict levy limits essentially unchanged. With aid stagnant and levy limits tight, municipalities and counties will have to continue operating with little or no revenue growth.

Candidate Questions

1. Due to levy limits, property tax levies have grown minimally in recent years. Do you support levy limits? If not, what changes do you think would be appropriate?
2. With rising fixed costs and slowed revenues, municipal and county budgeting has become more challenging. How might that financial burden be eased? Would that include increased state aid?

REDISTRICTING

Legislative redistricting occurs just once in a decade, but press attention has made it a hot button issue in state politics. Redrawing legislative and congressional district lines has historically been the legislature's responsibility. The legislature must redistrict based upon the results of the decennial federal census.

The Argument

At various times in the past 30 years, both major parties have supported redistricting reform. The argument usually proceeds along these lines.

For. Those who favor the current redistricting approach have history on their side. Elected representatives in most states have handled the task since the nation's founding.

In addition, some political scientists suggest it is wishful thinking to expect an inherently political process to be anything but political. Defenders of the status quo argue that it is wholly appropriate in a democracy for elected representatives to handle

redistricting, rather than to rely on a body unaccountable to voters.

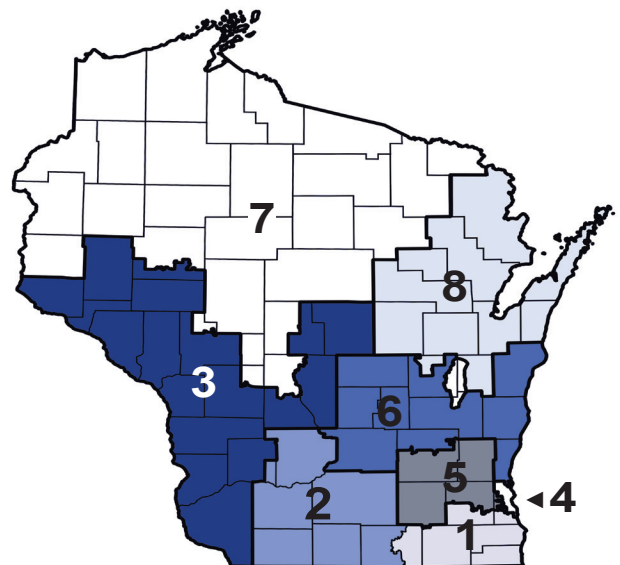
Against. Reformers point out that both parties have, when they could, "gerrymandered" Wisconsin. Republicans proved that in 2011 when they redrew districts to their advantage. Democrats did the same in 1983 when they repealed a federal court map used in 1982, and amended the 1983-85 state budget to give them an electoral edge for the next decade.

Politically motivated redistricting can benefit both parties. Prior to 2002, the first and second congressional districts bordering Illinois had elected both Republicans and Democrats. That year, the parties used the map-drawing process to strengthen incumbents of both parties. The result was a second district based in Democrat-rich Madison and a first district bolstered by Republicans in suburban Milwaukee.

Redistricting in 2011 accomplished the same goal. The western third district was packed with Democrats, while the northern seventh and eighth districts shed Democratic strength in favor of geography friendly to Republicans. Critics of the action cite the odd-shaped third district to illustrate the effects of legislative line-drawing (see Figure 11).

The victory margins of state lawmakers in their most recent election (2012) further illustrate the potential for redistricting mischief. Current districts have left relatively few legislators vulnerable. In the senate, 18 of 33 members (seven Democrats and 11

Figure 11: Current Wisconsin Congressional Districts



Republicans) won their most recent election with 60% or more of the vote, a margin often considered a landslide. Seven (3D, 4R) were effectively unopposed, winning with 95% or more of the vote. Only five senators (3D, 2R) who garnered 52.5% or fewer votes might be considered vulnerable in the future elections.

Members of the state assembly are no less secure: 52 of 99 (32D, 20R) representatives won their seats by margins of 60% or more. Amazingly, 22 (17D, 5R) won with 95% or more of the vote, while only ten (3D, 7R) survived with less than 52.5%.

Possible Solutions

Two popular alternatives to partisan redistricting have gained attention as of late. The first is Iowa’s well-known nonpartisan, professional approach that remains unique among the states. The second is California’s politically balanced citizen commission. Neither the Iowa model nor any redistricting method is perfect: Where people can afford to live inevitably creates one-party districts. Each, however, has notable benefits.

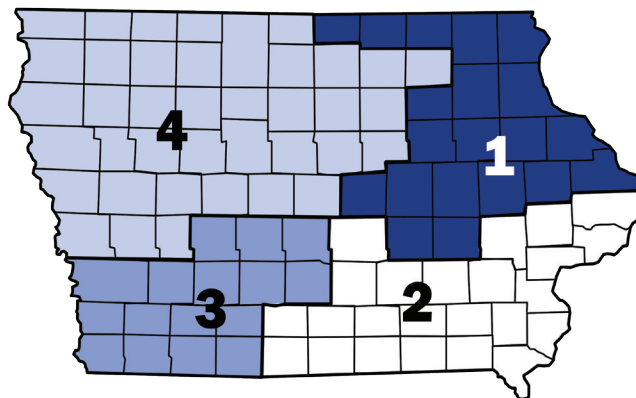
Iowa. Since its adoption in 1980, Iowa redistricting has been completed without major political fanfare or court challenges. A quick look at an Iowa congressional map (above) shows districts that respect municipal and county lines and are generally compact.

Iowa requires civil servants in a legislative service agency to prepare district plans on a set schedule according to specific guidelines. After public hearings, the first staff plan goes to the legislature for an “up or down” vote; only corrective, technical amendments are allowed. If that plan is rejected, a second staff plan is submitted. If that is turned down, a third plan, this time subject to amendment, is prepared.

Statutory requirements guide Iowa mapmakers in drawing districts. These include: conformity with the U.S. constitution, including voting rights provisions; roughly equal-population districts, generally within 1% of ideal for Congress and 5% for senate and house; district lines that follow county and municipal boundaries and minimize community divisions; and compact districts composed of convenient, contiguous territory. Compactness is enforced by mathematical constraints that prevent odd-shaped districts.

California. The California redistricting model is more recent. Authorized by voters in November 2008,

Figure 12: Iowa Congressional Districts



the California Citizens Redistricting Commission is a 14-member panel consisting of five Democrats, five Republicans, and four commissioners from neither major party. Citizens apply for consideration as commission members and are, to some degree, chosen by lot. Commissioners selected in November and December 2010 completed the new maps for the Golden State by August 15, 2011.

Outlook

Despite talk of redistricting reform, it faces major hurdles in Wisconsin. Rewriting state law requires action by legislators, many of whom have a vested interest in the present system. Even if reform were approved, a number of political analysts do not see it as a panacea that guarantees a less partisan, more civil legislature. Changing the way districts are drawn, they say, is only a first step. What is really needed is election law reform that would end partisan primaries in favor of the all-candidate “blanket” primary used in California, Louisiana, and Washington.

Candidate Questions

1. Do you support the current legislative redistricting process? If not, how would you change it?
2. Some analysts suggest that redistricting reform will not solve the legislature’s gridlock and polarization. They suggest more sweeping election law reform. Do you think changing current election laws could make the legislature operate with greater civility and compromise? What would you propose? Would you end partisan primary elections?

DATA SOURCES:

U.S. Bureau of Economic Analysis; U.S. Census Bureau; Wisconsin Department of Revenue; Wisconsin Legislative Fiscal Bureau.



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WISTAX NOTES

■ **Second Quarter Polling.** According to the latest Wisconsin Economic Scorecard (WES), a quarterly tracking poll of Wisconsin residents from UW-Milwaukee, opinions on transportation run the gamut. To cover the projected shortfall in Wisconsin's transportation budget, 31% favor toll roads, while 29% prefer delaying road projects.

There's been slight change in how Wisconsinites evaluate their personal financial situations. About 63% of voters believe that the state is moving in the right direction, up from 57% in the first quarter of 2014. Regarding the broader economy, 39% of residents currently describe Wisconsin's recent economic performance as "excellent" or "good," while about 62% characterize the current state economy as "fair" or "poor."

■ **State Sales Tax.** Wisconsin was one of the last states to adopt a sales tax, enacting it in 1961, according to the Tax Foundation. All surrounding states adopted the tax in 1933, save Minnesota (1967).

Of the 50 states, Mississippi was the first to adopt the sales tax, enacting it in 1930. Another 23 adopted a state-wide the tax during 1930s. Between 1940 and 1959, 10 enacted the tax. Only 11 states, including Wisconsin, waited until the 1960s. Five states (Oregon, Montana, Alaska, Delaware, and New Hampshire) have no sales tax.

■ **Itemized Deductions.** The itemized deduction credit was computed incorrectly on 2013 Wisconsin income tax returns prepared by some tax software programs. Beginning July 15, 2014, the state Department of Revenue (DOR) sent notices to affected taxpayers informing them of amounts still due. Interest and penalties will not be assessed as long as the bill is paid on or before the due date. □

Order *SchoolFacts* Now—and Save!

An essential resource for individuals interested in Wisconsin schools, the 2014 edition of *SchoolFacts* will be available in October. The 164-page book provides information on school district revenues and spending, student characteristics, test scores, staffing, teacher pay, property taxes, and much more.

SchoolFacts is the most comprehensive collection of up-to-date school district information, allowing you to compare districts and benchmark performance. WISTAX also offers supplemental reports to *SchoolFacts* purchasers that compare districts by athletic conference or other criteria, as well as a 10-year history report for a single district that allows users to track district progress and spot trends.

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lows you to compare your district to nine others of your choice for \$50,

or a 10-year history report for \$35.

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